

SPECIAL COMMITTEE TO REVIEW ENERGY CONTRACTS AND RELATED PROJECTS

September 4, 2001

6:15 PM

Chairman Wihby called the meeting to order.

The Clerk called the roll.

Present: Aldermen Wihby, Sysyn, Pinard, Shea, Thibault

Messrs: R. Sherman

Chairman Wihby addressed Item 3 of the agenda:

Discussion relative to Natural Gas Supply and Service Agreement.

Mr. Sherman stated what you have in front of you is the negotiated contract that we have come up with for our natural gas supply. As you know, this is part of the MAAP program. Along with the electricity we are doing natural gas and energy efficiency. The City issued an RFP in July. Unfortunately, we did only get one response but on the fortunate side it was from the same company that currently has the City's contract. Under this contract, there are two Manchester accounts and six Nashua accounts. What this contract effectively does is it lets the City procure its natural gas out on the open market. What we do is we take a look at the prices that are available on the market and we take a look at the prices that Energy North or Keyspan can provide to the City and we decide which is better for the City over the next two years. The contract does allow us to lock in our prices. We are being told both by Adams Energy and the folks at Keyspan and our own consultants that that probably is the best deal for the City to lock the prices in where they are now. Because they were the only proposer, the City really didn't have a whole lot of leverage in negotiating the contract. One of the things that we did push for that we were unable to get was a performance bond. In the end, it really isn't going to matter to the City. If we don't accept this contract what will happen is we fall back on to Keyspan's tariff rates. We know for a fact that Keyspan's rates for this winter are going to far exceed what the current market values are. Unfortunately Keyspan has not filed their tariff's right now so I can't give you an exact number but in talking to the Keyspan representatives they have told us that they do exceed these to the extent where they may also be double what we can get on the open market right now. Now keep in mind that is not double the entire bill, it is double just the commodity portion, just the gas portion but by staying out of the Keyspan

tariff what that allows the City to do is avoid paying the stranded costs that are going to occur as the natural gas industry gets deregulated. Just like in the electric industry we are paying for Seabrook and some contracts out there, natural gas is the same issue. These accounts that we have are exempt from those stranded costs because we have pulled them out of the system. If we go back to Keyspan at this point, we are going to end up paying those. Now by signing this contract with Adams Energy, again it avoids that. Let's say six months down the road Adams Energy decides to walk and this contract for some reason becomes void. We will fall back on Keyspan's tariff rates unless we can get a third party to come in and pick up the contract. Now again at this point we don't have a performance bond but that would put us in the same position as it would if we went on Keyspan's rates now so effectively we are not losing anything. The only thing we can do here is gain during this period that we can use Adams Energy. Hopefully...you know we have checked out the financial resources of Adams Energy. We don't see any reason or have any cause of concern that they wouldn't live up to this contract for the next two years but that is the situation that the City is in when you only have one proposal.

Chairman Wihby asked is this the same exact proposal that we have now.

Mr. Sherman answered the only thing that is really different is under the prior contract they guaranteed us a 5% savings. This contract does not guarantee us that 5% savings but if we locked in now, even if we only do it for one year...obviously our biggest period of usage is during the winter. Most of our gas is used for heating and again we are being told by the folks at Keyspan that we will save in excess of that 5% if we lock in now but we don't have that concern.

Chairman Wihby asked can we lock in for two years.

Mr. Sherman answered the contract is for two years so we could actually lock in for a two year period.

Chairman Wihby asked if we do that and the prices went actually higher than what we could go out and get can you go out and get cheaper or are you stuck with the higher prices.

Mr. Sherman answered you are stuck with that lock in. My thought is and again once we get a contract in place my thought is that a better situation may actually be just to lock in one year. We know we can beat Keyspan rates for this winter. We can lock in this year, beat their rates and take a look at it a year from now and decide whether you want to lock in again or go with Keyspan.

Alderman Thibault moved to approve the agreement. Alderman Pinard duly seconded the motion for discussion.

Alderman Shea asked does lock in mean the same as I buy my oil in July for the following year. Is that what you are talking about?

Mr. Sherman answered that is exactly what we are talking about.

Alderman Shea asked where does this Adams Energy Company operate from.

Mr. Sherman answered they are out of Tennessee. The owner of Adams Energy is the owner of the Tennessee Titans. They hooked into the Tennessee oil pipeline.

Alderman Lopez asked I wonder if the Solicitor can elaborate a little bit...as Randy mentioned there is no longer a performance bond and also you said that although we do not feel this is ideal for the City we still believe the City should accept this contract. I don't think we are getting a great deal and I thought we were out of this business anyway. If the company is not willing to give us a performance bond...I don't understand. We always require a performance bond on a lot of things.

Deputy Solicitor Arnold answered as Randy pointed out we attempted to negotiate for that and were unsuccessful. The problem is if we don't accept this contract now we are not going to get the lower rate that we would get and we will be on Keyspan's tariff rate, which is precisely where we will end up if Adams Energy should default on this contract at any point in the future.

Alderman Lopez stated in reading this I think the City is getting the short end of the stick.

Chairman Wihby called for a vote on the motion. There being none opposed, the motion carried.

There being no further business, on motion of Alderman Pinard, duly seconded by Alderman Thibault, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee